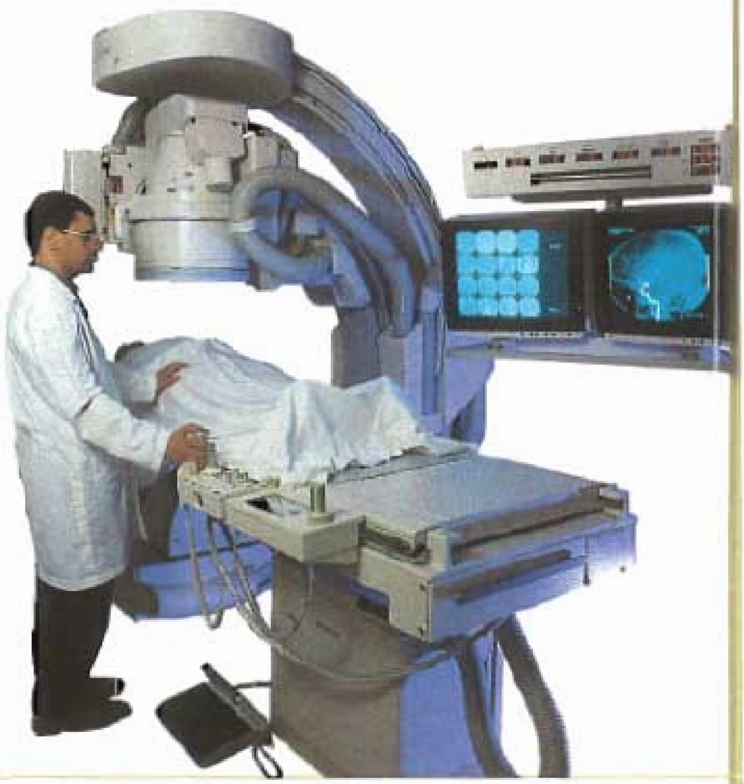
NCB acknowledges its responsibility to the wider community and participates in a large range of projects.



parts of the Kingdom and its meetings. It also supplies the media with statements and publishes the Bank's Consolidated Balance Sheet.

To further open dialogue between senior management and staff, the division publishes a monthly newsletter which contains information about all aspects of the Bank's activities. The division also oversees the publication of the Bank's annual report which is sent out to local and international banks and correspondent banks. It also organises ceremonies to honour members of staff. The Bank remains committed to supporting worthy causes and, during 1998, the Bank's charitable donations doubled, reflecting a principle laid down by our founder Sheikh Salim Bin Mahfouz.

Finally, 1998 was a year of consolidating our activities and during the year we maintained the momentum created in previous years. In this respect we regard the Award for Excellence received by the Bank from *Euromoney* in 1998 as an incentive to improve our services even further to meet the needs and expectations of our customers, partners, staff and shareholders alike. To attain these goals we shall remain committed to serving our customers wherever they are.

Whinney Murray & Co.
Ernst & Young International
P.O. Box 1994, Jeddah 21441
Saudi Arabia

Al Sayed El Ayouty & Co.
Member of Moore Stephens International Limited
Accountants and Auditors
P.O. Box 780, Jeddah 21421
Saudi Arabia

To the Shareholders of
The National Commercial Bank

We have audited the balance sheet of The National Commercial Bank (the "Bank") (a Saudi Joint Stock Company) as of 31 December 1998 and the related statements of income, changes in shareholders equity, and cash flows for the year then ended, including notes 1 to 25 which form part of these financial statements. These financial statements, which have been derived from computerised accounting records maintained in Arabic in the Kingdom of Saudi Arabia, are the responsibility of the Bank's Board of Directors and have been prepared by them in accordance with the provisions of Article (123) of the Regulations for Companies and the Banking Control Law and submitted to us together with all the information and explanations which we required. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

In our opinion, the financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Bank as of 31 December 1998 and the results of its operations and its cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Agency and International Accounting Standards; and

- comply with the requirements of the Regulations for Companies, Banking Control Law and the Bank's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

Whinney Murray & Co

Dr Abdullah Abdulrahman Baeshen
Registration No. 66

Jeddah: 15 Safar 1420 H
Corresponding to: 30 May 1999

Al Sayed El Ayouty & Co
Accountants and Auditors

السيد الايوطي

Al Sayed El Ayouty
Registration No. 36

Balance sheet

as at 31 December 1998 (in thousands of Saudi Riyals)

		Note	1998	1997
Assets	Cash and balances with SAMA	3	2,900,493	2,899,160
	Due from banks	4	7,914,644	14,144,783
	Trading securities	5	1,462,027	1,320,500
	Loans and advances, net	6&21	56,414,407	46,290,109
	Investment securities, net	7	19,178,481	16,863,104
	Fixed assets, net	8	1,693,792	1,702,017
	Other real estate	9	1,367,988	1,030,880
	Other assets	10	1,998,706	2,187,589
Total assets			92,930,538	86,438,142
Liabilities and shareholders' equity	Liabilities			
	Customers' deposits	11&21	65,743,653	61,929,185
	Due to banks	12	15,998,878	13,919,435
	Other liabilities	13	3,160,356	2,802,766
Total liabilities			84,902,887	78,651,386
Shareholders' equity	Share capital	14	6,000,000	6,000,000
	Statutory reserve	15	2,027,192	1,761,695
	Retained earnings		459	25,061
Total shareholders' equity			8,027,651	7,786,756
Total liabilities and shareholders' equity			92,930,538	86,438,142
Contra accounts		18-2&21	89,488,848	90,029,505

The accompanying notes 1 to 25 form an integral part of these financial statements.

for the year ended 31 December 1998 (in thousands of Saudi Riyals)

		Note	1998	1997
Operating income	Special commission income		4,300,565	3,711,756
	Gain on foreign exchange		110,616	115,057
	Gain on trading securities		106,312	91,783
	Income from investment securities		1,109,191	1,278,691
	Income from other real estate	19	26,134	27,543
	Fees and income from banking services		458,825	450,453
Total operating income			6,111,643	5,675,283
Operating expenses	Special commission expenses		2,905,642	2,613,597
	Provision for loan losses	6	646,802	450,494
	Salaries and other staff related costs		865,566	864,536
	Rent and premises related costs		100,305	94,030
	Directors' fees and remuneration		1,745	-
	Depreciation of fixed assets and other real estate	8&9	172,663	162,105
	Other general and administrative expenses		435,276	514,948
Total operating expenses			5,127,999	4,699,710
Net operating income			983,644	975,573
Other income (expenses)	Other income	20	119,447	166,394
	Donations and charitable contributions		(41,104)	(86,673)
			78,343	79,721
Net income before Zakat			1,061,987	1,055,294
	Zakat	2-k	-	(12,003)
Net income			1,061,987	1,043,291
Earnings per share (SR)		16	17.7	17.4

The accompanying notes 1 to 25 form an integral part of these financial statements.

Statement of changes in shareholders' equity

for the year ended 31 December 1998 (in thousands of Saudi Riyals)

		Note	Share capital	Statutory reserve	Retained earning
1998	Balance at beginning of the year		6,000,000	1,761,695	25,061
	Net income		-	-	1,061,987
	Transfer to statutory reserve	15	-	265,497	(265,497)
	Proposed dividend and zakat	17	-	-	(821,092)
	Balance at end of the year		6,000,000	2,027,192	459
1997	Balance at beginning of the year		6,000,000	1,500,871	153,969
	Net income		-	-	1,043,291
	Transfer to statutory reserve	15	-	260,824	(260,824)
	Proposed dividend and Zakat	17	-	-	(314,710)
	Profit distributed to partners		-	-	(596,665)
	Balance at end of the year		6,000,000	1,761,695	25,061

The accompanying notes 1 to 25 form an integral part of these financial statements.

for the year ended 31 December 1998 (in thousands of Saudi Riyals)

		1998	1997
Cash flows from operating activities	Net income	1,061,987	1,043,291
	Adjustments to reconcile net income to net cash from operating activities:		
	Depreciation of fixed assets and other real estate	172,663	162,105
	Gain on disposal of fixed assets and depreciation differences	(31,828)	(1,175)
		1,202,822	1,204,221
Net decrease/(increase) in operating assets	Due from banks	6,230,139	(1,466,688)
	Trading securities	(141,527)	(193,322)
	Loans and advances–net	(10,124,298)	(8,119,037)
	Other real estate	(345,510)	(5,826)
	Other assets	235,010	(133,348)
Net increase/(decrease) in operating liabilities	Customers' deposits	3,814,468	3,925,105
	Due to banks	2,079,443	2,488,614
	Other liabilities	(165,626)	101,814
Net cash from/(used in) operating activities		2,784,921	(2,198,467)
Cash flows from investing activities	Net (increase)/decrease in investment securities	(2,315,377)	3,791,636
	Purchase of fixed assets	(179,679)	(195,999)
	Proceeds from disposal of fixed assets	11,468	10,211
Net cash (used in)/from investing activities		(2,483,588)	3,605,848
Cash flows used in financing activities	Dividends distributed	(300,000)	(1,129,168)
Net increase in cash balances with SAMA		1,333	278,213
	Cash and balances with SAMA at beginning of the year	2,899,160	2,620,947
Cash balances with SAMA at the end of the year		2,900,493	2,899,160

The accompanying notes 1 to 25 form an integral part of these financial statements.

Notes to the financial statements

31 December 1998 (in thousands of Saudi Riyals)

1. General

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company in accordance with a Cabinet Resolution No. 186 dated 22 Dhul Qida 1417 H (corresponding to 30 March 1997) and Royal Decree No. M/19 dated 23 Dhul Qida 1417H (corresponding to 31 March 1997) approved the Bank's conversion from general partnership to a Saudi Joint Stock Company. The partnership was established in accordance with a registration certificate authenticated by a Royal Decree in Rajab 1369 (corresponding to May 1950) and registered under commercial registration No. 1588 issued in Dhul Hijjah 1376 H (corresponding to July 1957). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from general partnership to a Saudi Joint Stock Company.

The objectives of the Bank are to provide all banking services. The Bank operates through 245 branches (1997– 245 branches) in the Kingdom of Saudi Arabia and 2 overseas branches (Beirut and Bahrain).

The Bank has 60% ownership in a subsidiary, the Commercial Real Estate Markets Company, a Limited Liability Company registered in Saudi Arabia under commercial registration number 4030073863 dated 5 Rabi Thani 1411 H (corresponding to 24 October 1990). The company is engaged in owning, maintaining and managing the Jamjoom Centre in Jeddah. The financial statements of the subsidiary have not been consolidated with the Bank's financial statements on the grounds that the activities of the subsidiary are dissimilar to the Bank's activities. This subsidiary has been accounted for on equity basis and included in investment securities.

2. Summary of significant accounting policies

2-a) Regulatory requirements
The Bank is subject to the Regulations for Companies and the Banking Control Law in the Kingdom of Saudi Arabia. The financial statements are prepared in accordance with the Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Agency (SAMA), the requirements of the Regulations for Companies, the General Presentation and Disclosure Standard issued by the Saudi Arabian Ministry of Commerce and comply with the International Accounting Standards.

2-b) Accounting convention
The financial statements are prepared under the historical cost convention.

2-c) Trading and investment securities portfolios
The Bank maintains two separate and distinct securities portfolios, namely "investment securities" and "trading securities". The designation of investments is made by the Bank's management between the two portfolios at the time of purchase and no transfers are made between them after such date unless the management has justifications for such transfers.

2-c-i) Trading Securities
Securities purchased for trading purposes are recorded at cost of acquisition at the date of purchase and are marked to market at the balance sheet date. The realised and unrealised gains or losses are included in income from operations. Yield from these securities is classified as other income (expenses).

2-c-ii) Investment securities
Investment securities are stated in the balance sheet at cost adjusted for amortisation of premiums and accretion of discounts, when applicable, net of provision for any permanent decline in value. Investment in subsidiary is accounted for on equity basis.

Amortisation and accretion are computed using the straight line method over the remaining period to maturity. The amortised premium and discount and the income earned by the Bank on these securities are included in operating income.

In case of a permanent diminution in the value of any individual security, a provision is made for the amount of diminution. Such provision, as well as gains and losses arising on disposal of investment securities, are classified as other income (expense).

2-d) Provision for loan losses
Provision is made against specific loans and advances following a study of the portfolio that takes into account the recoverability of those debts and the general economic conditions. Such provision is charged to operating expenses.

Loans and advances are written off only in circumstances where all possible means of recovery have been exhausted and after taking into account the guarantees provided in respect of such loans. Provision for loan losses is deducted from loans and advances in the balance sheet.

2. Summary of significant accounting policies (continued)

2-e) Fixed assets
Fixed assets are stated in the balance sheet at cost net of accumulated depreciation.

Freehold land is not depreciated. The cost of other fixed assets is depreciated using the straight line method over their expected useful lives, based on the following annual percentage rates:

Freehold Buildings	2.5%
Furniture, Vehicles and Equipment	10% to 25%
Leasehold Buildings	over the lease period

2-f) Other real estate
The Bank occasionally acquires real estate against settlement of overdue loans and advances. Such real estate is recorded at the lower of fair market value of the acquired real estate or the present value of outstanding loan or advance at the settlement date.

Other real estate is valued periodically by independent appraisers. The unrealised loss arising on periodical valuations of other real estate and gains/losses on disposal are included in operating income.

The cost of buildings included under other real estate is depreciated using the straight-line method at an annual rate of 2.5%.

Other real estate is stated in the balance sheet net of accumulated depreciation and provision for decline in book value.

2-g) Income recognition
Income and expenses are recognised on an accrual basis. However, income on loans and advances classified as non-performing is recognised on a cash basis until the loan or advance is reclassified as performing whereupon the recognition of income reverts to an accrual basis.

Income from Islamic products is recognised on an accrual basis except for income from musharakah transactions which is recognised on a cash basis.

2-h) Foreign currencies
Transactions in foreign currencies are translated to Saudi Riyals at the exchange rates prevailing on the dates of the transactions. Assets and liabilities in foreign currencies at the balance sheet date are translated to Saudi Riyals at the rates of exchange prevailing at that date.

Realised and unrealised gains and losses on exchange are credited or charged to operating income.

2-i) Financial instruments
Financial instruments include both on and off balance sheet instruments.

2-i-1 On-balance sheet financial instruments
On-balance sheet financial instruments comprise cash and balances with SAMA, due from banks, trading securities, loans and advances, investment securities, certain other assets, customer deposits, due to banks and certain other liabilities.

The fair values of on-balance sheet financial instruments, except for investment securities and loans and advances, are not significantly different from the carrying values included in the financial statements. The estimated fair value of the investment securities is based on quoted market prices when available or pricing models in the case of certain fixed rate bonds and estimated fair values for non-quoted securities. It is not practical to determine the fair value of loans and advances to customers with sufficient reliability.

The maximum credit risk from on-balance sheet financial instruments is equal to the carrying value disclosed in the financial statements, excluding fair values of collateral received.

2-i-2 Off-balance sheet financial instruments (contra accounts)
Off-balance sheet financial instruments comprise letters of credit, letters of guarantee, commitments to purchase and sell foreign currencies, interest rate and foreign currency related swaps, forward rate agreements, interest rate and foreign currency options, futures and other miscellaneous contingent liabilities.

The Bank enters into forward and future transactions, swaps and options to hedge the risks accompanying the management of its assets and liabilities, or for trading purposes. Trading transactions are also undertaken to service customer needs. Forward foreign exchange contracts are recorded in Saudi Riyals at the spot rates prevailing at the deal date. Premiums and discounts on forward foreign exchange contracts are amortised or accredited on a straight line basis over the period of the contracts. Contracts outstanding at the balance sheet date are valued at the spot exchange rate prevailing at that date. Realised and unrealised gains and losses on exchange are credited or charged to operating income.

31 December 1998 (in thousands of Saudi Riyals)

2. Summary of significant accounting policies (continued)

2-i-2 Off-balance sheet financial instruments (contra accounts) (continued)

Financial instruments concluded to hedge asset and liability risks are treated in the same manner as that adopted in respect of the item hedged. Commission income/expense from such instruments is included in operating income. Transactions concluded for trade purposes are marked to market; realised and unrealised gains or losses are included in operating income.

The fair value of off-balance sheet financial instruments is determined on the basis of market values.

The maximum credit risk from off-balance sheet financial instruments is substantially less than the carrying values in the balance sheet excluding fair values of collateral received.

2-i-3 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the accompanying balance sheet when a legally enforceable right to set off the amounts exists or when the Bank intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

2-i-4 Risk management

As part of the Bank's strategy, the Bank's management controls risks associated with financial instruments by hedging risk exposures, avoidance of undue concentration of risk and requirements for collateral to mitigate credit risks.

2-j) Employee's end of service indemnity

End of service indemnity payable to the employees of the Bank are provided for in accordance with the guidelines set by the Saudi Arabian Labour and Workman Law and is included in other liabilities.

2-k) Zakat

Zakat is the liability of the shareholders and is paid by the Bank on their behalf. Zakat is computed in accordance with the Regulations of the Department of Zakat and Income Tax based on the financial statements as at end of the year and is charged to the retained earnings. Up to 30 June 1997 and prior to the conversion of the Bank to a Joint Stock Company, Zakat was charged to the statement of income.

3.Cash and balances with SAMA		1998	1997
	Cash on hand	**733,447**	790,174
	Balances with SAMA		
	Statutory deposit	**2,161,048**	2,086,563
	Current accounts	**5,998**	22,423
Total cash and balances with SAMA		**2,900,493**	2,899,160

In accordance with Article (7) of the Banking Control Law, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its call, time, savings and other deposits determined at the end of each Gregorian month.

4. Due from banks		1998	1997
	a) Domestic		
	Call and current accounts	**301,654**	466,806
	Time deposits	**635,600**	1,790,030
		937,254	2,256,836
	b) Foreign branches of domestic banks		
	Time deposits	**-**	150,000
	c) International		
	Call and current accounts	**640,198**	1,263,040
	Time deposits	**6,337,192**	10,474,907
		6,977,390	11,737,947
Total due from banks		**7,914,644**	14,144,783

31 December 1998 (in thousands of Saudi Riyals)

5. Trading securities

		1998	1997
	a) Domestic		
	Units in Mutual funds managed by the Bank	131,096	188,913
	Fixed rate Government bonds	150,101	169,895
		281,197	358,808
	b) International		
	Floating rate Government bonds	19,176	-
	Fixed rate Corporate bonds	28,787	-
	Floating rate Corporate bonds	67,492	-
	Externally managed portfolios (shares, bonds and others)	1,065,375	961,692
		1,180,830	961,692
Total trading securities (at market value)		1,462,027	1,320,500

The cost of acquisition of trading securities as at 31 December 1998 amounted to SR 1,449 million (1997 - SR 1,238 million). The net unrealised gains on the trading portfolio resulting from marked to market valuation during the year amounted to SR 13 million (1997 - SR 82.5 million).

6. Loans and advances, net

6-1 Loans and advances comprise the following:		1998	1997
	Loans and advances, gross	60,011,208	49,946,765
	Provision for loan losses	(3,328,826)	(3,150,943)
	Accumulated commission in suspense	(267,975)	(505,713)
Loans and advances - net		56,414,407	46,290,109

Non-performing loans and advances as at the year end, net of accumulated commission in suspense, amounted to SR 5,816 million (1997 - SR 6,005 million). The commission in suspense earned on non-performing loans and advances but not recognised as income during the year amounted to SR 104 million (1997 - SR 48 million). In addition to the above provision, the Bank maintains collateral in kind against certain loans and advances.

6-2 Breakdown of loans and advances (gross) by major economic sector:		1998	1997
	a). Domestic		
	a-1) Private sector		
	Real estate	1,787,279	2,057,320
	Agriculture	61,977	151,123
	Manufacturing	1,381,685	1,669,169
	Trading	10,197,122	10,065,549
	Services and contracting	16,858,205	7,723,188
	Other	7,985,709	1,285,965
	a-2) Government, government agencies, quasi government and other public institutions	20,999,170	25,838,621
		59,271,147	48,790,935
	b) International		
	b-1) Private sector		
	Other	235,320	541,268
	b-2) Government, government agencies, quasi government and other public institutions	251,720	396,710
	b-3) Banks	253,021	217,852
		740,061	1,155,830
Total loans and advances - Gross		60,011,208	49,946,765

31 December 1998 (in thousands of Saudi Riyals)

6. Loans and advances, net continued

6-3 Movement in the provision for loan losses.		1998	1997
	Balance at beginning of the year:	3,150,943	2,923,698
	Amounts written off	(772,900)	(223,249)
	Additions during the year	646,802	450,494
	Adjustment	303,981	-
Balance at end of the year		3,328,826	3,150,943

The above adjustments amounting to SR 303,981 thousand represent surplus in accumulated commission in suspense that the Management has decided to transfer to the provision for loan losses.

7. Investment securities, net		1998	1997
	a) Domestic		
	Shares and investment in companies	2,000,348	1,747,849
	Units in Mutual funds	65,832	64,017
	Fixed rate Government bonds	7,314,497	6,439,314
	Floating rate Government bonds	3,601,090	3,151,090
	Fixed rate treasury bills	737,081	493,943
		13,718,848	11,896,213
	b) International		
	Shares	54,144	51,458
	Fixed rate treasury bills	218,659	328,398
	Fixed rate Government bonds	396,750	691,359
	Floating rate Government bonds	205,923	-
	Fixed rate Corporate bonds	126,112	680,976
	Floating rate Corporate bonds	3,325,082	2,009,738
	Other investments (Islamic products)	1,132,963	1,204,962
		5,459,633	4,966,891
Total investment securities - net		19,178,481	16,863,104

The market/fair value of investment securities as at the balance sheet date amounted to SR 18,930 million (1997 - SR 17,275 million). These investments are intended for long-term investment purposes, with debt securities to be held until maturity at which point the face value of such securities will be realised.

8. Fixed assets, net		Land	Buildings	Furniture, vehicles and equipment	Total
	Cost:				
	Balance at beginning of the year	325,379	1,537,824	841,967	2,705,170
	Additions	19,425	72,808	87,446	179,679
	Disposals	-	(6,097)	(35,982)	(42,079)
	Adjustments	34,618	(68,524)	(12,221)	(46,127)
Balance at end of the year		379,422	1,536,011	881,210	2,796,643
	Accumulated depreciation:				
	Balance at beginning of the year	-	465,031	538,122	1,003,153
	Additions	-	43,756	120,505	164,261
	Disposals	-	(2,286)	(28,624)	(30,910)
	Adjustments	-	(12,667)	(20,986)	(33,653)
Balance at end of the year		-	493,834	609,017	1,102,851
Net book Value at 1998		379,422	1,042,177	272,193	1,693,792
Net book Value at 1997		325,379	1,072,793	303,845	1,702,017

Adjustments represent split between cost of land and cost of buildings, and transfer of properties under construction and unused telecommunication equipment to other assets. This has resulted in differences in depreciation which was taken to other income.

31 December 1998 (in thousands of Saudi Riyals)

9. Other real estate		1998	1997
	Balance at beginning of the year, net	1,030,880	1,033,182
	Additions	386,570	23,766
	Disposals, net	(41,060)	(17,940)
	Depreciation on buildings for the year	(8,402)	(8,128)
Balance at end of the year, net		1,367,988	1,030,880

10. Other assets		1998	1997
	Customers' liabilities on acceptances	1,107,595	1,020,272
	Accrued commission receivable	452,725	549,746
	Other	438,386	617,571
Total other assets		1,998,706	2,187,589

11. Customers' deposits		1998	1997
	a) Domestic		
	Current and call accounts	26,289,974	25,725,861
	Saving	530,311	600,059
	Time deposits	14,910,545	13,120,608
	Other	2,495,044	2,680,612
		44,225,874	42,127,140
	b) International		
	Current and call accounts	133,815	61,423
	Saving	12,909	14,172
	Time deposits	21,014,744	19,347,291
	Other	12,596	4,884
		21,174,064	19,427,770
	c) Accrued commission payable	343,715	374,275
Total customers' deposits		65,743,653	61,929,185

Customers' deposits include foreign currency deposits equivalent to SR 18,421 million (1997 - SR 15,452 million).

Customers' deposits include an amount of SR 1,314 million (1997 - SR 194 million) representing liabilities against the sale of fixed rate bonds with agreements to repurchase at fixed future dates.

12. Due to banks		1998	1997
	a) Domestic		
	Current and call accounts	203,371	264,536
	Time deposits	10,820,133	7,534,719
		11,023,504	7,799,255
	b) Foreign branches of domestic banks		
	Time deposits	281,250	147,500
	c) International		
	Current and call accounts	900,840	1,404,232
	Time deposits	3,702,564	4,457,102
		4,603,404	5,861,334
		15,908,158	13,808,089
	d) Accrued commission payable	90,720	111,346
Total due to banks		15,998,878	13,919,435

Due to Banks include an amount of SR 1,526 million (1997 - SR 1,169 million) representing liabilities against the sale of fixed rate bonds with agreements to repurchase at fixed future dates.

31 December 1998 (in thousands of Saudi Riyals)

13. Other liabilities

		1998	1997
	Acceptances outstanding	1,107,595	1,020,272
	Proposed dividend to the shareholders (Note 17)	795,000	300,000
	Zakat (Note 17)	26,092	29,963
	Other	1,231,669	1,452,531
Total other liabilities		**3,160,356**	**2,802,766**

14. Share capital

The authorised, issued and fully paid share capital at 31 December 1998 consists of 60 million shares of SR 100 each.

15. Statutory reserve

In accordance with the Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank. This reserve is not available for distribution.

16. Earnings per share

The calculation of earnings per share is based on the net income for the year amounting to SR 1,062 million (1997 - SR 1,043 million) divided by 60 million nominal shares.

17. Proposed dividend and Zakat

The Board of Directors has proposed a dividend amounting to SR 821.1 million (1997 - a six month period - SR 314.7 million). Zakat attributable to the shareholders amounting to SR 26.1 million (1997 - a six month period SR 14.7 million) will be deducted from the gross dividend resulting in a net dividend of SR 795 million at the rate of SR 13.25 per share net of Zakat (1997 - SR 300 million at the rate of SR 5 per share). The proposed dividend is included in other liabilities.

18. Financial instruments

18-1 On balance sheet financial instruments - commission rate risk

Commission rate risk is the uncertainty of future earnings resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period. The most important source of such rate risk is the Bank's lending, funding and investments activities, where fluctuations in commission rates are reflected in commission margins and earnings. The Bank also faces such rate risk in its trading portfolio, where rate changes may result in fluctuations in portfolio market values.

Commission rate gap is a common measure of rate risk. A positive gap occurs when more assets than liabilities are subject to rate changes during a prescribed period of time. A negative gap occurs when liabilities exceed assets during a prescribed period of time.

The commission rate gap position and term to maturity, based on contractual maturity dates or re-pricing, whichever is earlier for on balance sheet financial instruments are as follows:

31 December 1998 (in thousands of Saudi Riyals)

18. Financial instruments (continued)

18-1 On balance sheet financial instruments - commission rate risk (continued)

31 December 1998		Commission Sensitive			Non-	
		Within 3 months	3 to 12 months	Over 1 year	commission sensitive	Total
Assets	Cash and balances with SAMA	-	-	-	2,900,493	2,900,493
	Due from banks	4,332,372	2,981,062	-	601,210	7,914,644
	Trading securities	29,992	656,602	360,963	414,470	1,462,027
	Loans and advances, net	32,189,873	4,434,147	16,102,432	3,687,955	56,414,407
	Investment securities, net	7,863,842	2,658,370	6,535,947	2,120,322	19,178,481
	Fixed assets, net	-	-	-	1,693,792	1,693,792
	Other real estate	-	-	-	1,367,988	1,367,988
	Other assets	-	-	-	1,998,706	1,998,706
Total assets		44,416,079	10,730,181	22,999,342	14,784,936	92,930,538
Liabilities and shareholders' equity	Customers' deposits	23,252,184	13,373,243	-	29,118,226	65,743,653
	Due to banks	10,841,665	4,081,365	-	1,075,848	15,998,878
	Other liabilities	-	-	-	3,160,356	3,160,356
	Shareholders' equity	-	-	-	8,027,651	8,027,651
Total liabilities and shareholders' equity		34,093,849	17,454,608	-	41,382,081	92,930,538
	On-balance sheet gap position	10,322,230	(6,724,427)	22,999,342	(26,597,145)	
	Off-balance sheet gap position	190,150	335,888	(526,038)	-	
	Combined gap position	10,512,380	(6,388,539)	22,473,304	(26,597,145)	
	Cumulative gap position	10,512,380	4,123,841	26,597,145	-	

31 December 1997		Commission Sensitive			Non-	
		Within 3 months	3 to 12 months	Over 1 year	commission sensitive	Total
Assets	Cash and balances with SAMA	-	-	-	2,899,160	2,899,160
	Due from banks	11,493,292	1,824,133	-	827,358	14,144,783
	Trading securities	-	184,394	705,399	430,707	1,320,500
	Loans and advances, net	17,374,631	10,359,666	15,757,017	2,798,795	46,290,109
	Investment securities, net	5,854,988	2,750,038	6,368,866	1,889,212	16,863,104
	Fixed assets, net	-	-	-	1,702,017	1,702,017
	Other real estate	-	-	-	1,030,880	1,030,880
	Other assets	-	-	-	2,187,589	2,187,589
Total assets		34,722,911	15,118,231	22,831,282	13,765,718	86,438,142
Liabilities and shareholders' equity	Customers' deposits	25,685,566	7,402,147	6,821	28,834,651	61,929,185
	Due to banks	9,988,383	2,471,545	-	1,459,507	13,919,435
	Other liabilities	-	-	-	2,802,766	2,802,766
	Shareholders' equity	-	-	-	7,786,756	7,786,756
Total liabilities and shareholders' equity		35,673,949	9,873,692	6,821	40,883,680	86,438,142
	On-balance sheet gap position	(951,038)	5,244,539	22,824,461	(27,117,962)	
	Off-balance sheet gap position	1,655,000	(587,000)	(1,068,000)	-	
	Combined gap position	703,962	4,657,539	21,756,461	(27,117,962)	
	Cumulative gap position	703,962	5,361,501	27,117,962	-	

The off-balance sheet gap represents the net notional amounts of financial instruments, which are used to manage commission rate risk.

31 December 1998 (in thousands of Saudi Riyals)

18. Financial instruments (continued)

18-2 Off-balance sheet financial instruments (contra accounts)
Term to maturity for off-balance sheet items is as follows:

31 December 1998		Within 3 months	3 to 12 months	Over 1 year	Total
	a) Contingent liabilities				
	Letters of credit	2,791,132	978,816	-	3,769,948
	Letters of guarantee	2,713,013	2,280,112	2,498,318	7,491,443
	Commitments to extend credit (irrevocable)	-	1,147,860	389,800	1,537,660
		5,504,145	4,406,788	2,888,118	12,799,051
	b) Forward foreign exchange Contracts				
	Purchases	8,168,967	17,346,882	171,944	25,687,793
	Sales	12,965,764	22,176,530	547,099	35,689,393
		21,134,731	39,523,412	719,043	61,377,186
	c) Derivatives				
	Commission rate swap	3,579,829	1,720,307	1,780,826	7,080,962
	Futures	348,500	825,000	1,444,000	2,617,500
	Currency options	4,014,559	1,599,590	-	5,614,149
		7,942,888	4,144,897	3,224,826	15,312,611
Total contra accounts		34,581,764	48,075,097	6,831,987	89,488,848

31 December 1997		Within 3 months	3 to 12 months	Over 1 year	Total
	a) Contingent liabilities				
	Letters of credit	2,274,636	824,143	197,794	3,296,573
	Letters of guarantee	3,259,588	2,011,235	1,664,471	6,935,294
	Commitment to extend credit (irrevocable)	-	846,000	1,367,087	2,213,087
		5,534,224	3,681,378	3,229,352	12,444,954
	b) Forward foreign exchange Contracts				
	Purchases	12,184,939	15,594,478	155,000	27,934,417
	Sales	5,973,000	16,244,000	438,000	22,655,000
		18,157,939	31,838,478	593,000	50,589,417
	c) Derivatives				
	Commission rate swap	9,624,130	2,695,086	606,320	12,925,536
	Forward rate agreements	4,271,888	-	-	4,271,888
	Futures	2,082,357	341,116	1,995,877	4,419,350
	Currency options	5,209,360	157,000	12,000	5,378,360
		21,187,735	3,193,202	2,614,197	26,995,134
Total contra accounts		44,879,898	38,713,058	6,436,549	90,029,505

The maturities set out in the above table are based on contractual re-pricing or maturity dates, whichever is earlier.

The fair value of off-balance sheet financial instruments (contingent liabilities) is not significantly different from the book value. In respect of the commitments for forward foreign exchange and derivative products, the amounts recorded are gross values and do not reflect the extent to which positions may offset one another. The amounts subject to market and credit risks are substantially smaller than the notional amounts.

Management does not anticipate any material loss as a result of these contingencies and commitments.

31 December 1998 (in thousands of Saudi Riyals)

18. Financial instruments (continued)

18-3 Foreign exchange position

The Bank had a net open foreign exchange position (principally in U.S. Dollars), of SR 4,288 million (1997 - SR 2,168 million).

19. Income from other real estate		1998	1997
	Gain/(loss) on sale of other real estate	221	(54)
	Rental income	25,913	27,597
Total income from other real estate		26,134	27,543

20. Other income		1998	1997
	Gain on investment securities	11,675	146,554
	Gain on disposal of fixed assets	299	1,175
	Yield on trading securities	31,841	9,348
	Other	75,632	9,317
Total other income		119,447	166,394

21. Transactions with related parties

During its ordinary course of business, the Bank transacts business with related parties. The balances from such transactions in the balance sheet are as follows:

Related party	Nature of transactions	1998	1997
Directors and members of	Loans and advances	296,355	101,822
senior management	Customers' deposits	325,365	155,002
	Contra accounts	53,830	19,282

22. Investment services

The Bank provides certain investment management services to its customers. These services include the management of a variety of mutual funds, some of which are in association with professional fund managers. The assets of these funds do not form part of the Bank's assets and, accordingly, are not included in these financial statements.

23. Assets and liabilities maturities	1998		1997	
	Assets	Liabilities	Assets	Liabilities
Less than one month	26,494,310	59,343,970	41,876,100	53,717,563
One month to one year	34,368,051	22,398,561	16,544,893	22,121,301
One to five years	19,510,402	-	15,245,730	9,756
Over five years	7,497,289	-	7,850,933	-
	87,870,052	81,742,531	81,517,656	75,848,620

The above reflects the contractual maturities of the assets and liabilities, and accordingly does not represent the anticipated maturities based on the Bank's experience of retaining deposits and managing its liquidity. The maturity profile is monitored by management on a daily basis to ensure adequate liquidity is maintained by the Bank to meet its obligations.

The above asset and liability amounts do not include fixed assets, other real estate and other assets and liabilities due to the special nature of these accounts.

24. Lease commitments

Total future lease commitments under non-cancellable leases of the Bank's buildings expire on the residual term of the leases during:

	1998	1997
Less than one year	17,997	13,186
One to five years	17,619	9,633
Over five years	7,883	1,907
	43,499	24,726

25. Year 2000

The Bank incurred certain expenditure during the year relating to modifications as deemed necessary to deal with the Year 2000 issue in connection with computers. Further expenses relating to these costs will be expensed as incurred.

In order to free itself from being dependent on oil revenues, Saudi Arabia has focused its development plans on economic diversification. While considerable resources have been allocated to restructure the economy with significant progress in import substitution, work is still going on to expand the share of the non-oil industrial sector in gross domestic product (GDP), (chart 1). Lower oil prices last year resulted in declining oil revenues, which prompted the Government to rationalise spending. In order to build the social and physical infrastructure necessary for growth, the fiscal balance has been running a deficit averaging well in excess of 5% to GDP over the last ten years (chart 2). The large proportion of Government expenditures to GDP at about 40% is double the average for emerging markets. Apparently, it is becoming increasingly necessary to adapt to the new realities of lower oil revenues. Obviously, pressure is building on the private sector to generate growth without a steady flow of Government expenditures.

The Government has committed itself to a set of policies aimed at liberalising trade, privatising public enterprises, and deregulating the capital market. These reform measures were given impetus by the processes of globalisation and trade liberalisation taking place in the world economy. Saudi Arabia has repeatedly stated its commitment towards economic liberalisation and privatisation as necessary steps toward reducing the economy's vulnerability to adverse oil developments. However, implementing the necessary adjustments has been expedited recently. While there has been progress recorded in the removal of subsidies and lately in the privatisation of the public entities, deepening of capital market and, to some extent, attracting of foreign portfolio investments appears to be still under review.

Saudi Arabia with its large, open, and liberal trade regime is well suited to reap the benefits of global trade liberalisation. However, the extent of Saudi Arabia's economic integration with the world economy necessitates further qualification. While the share of the external sector to GDP is among the highest worldwide, this measure of openness is greatly influenced by oil exports, as the share of non-oil exports to GDP amounted to a modest level of 4.3% in 1998. Given the current production and export structure, the direct benefits to the country from the liberalisation of

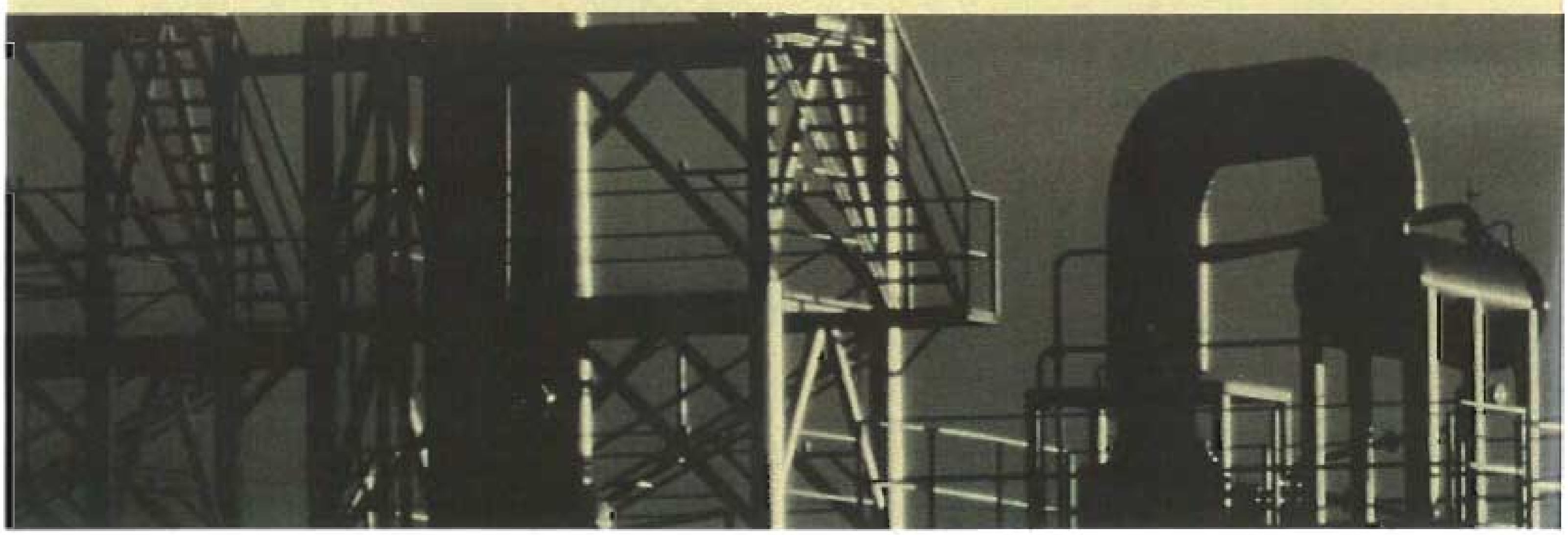
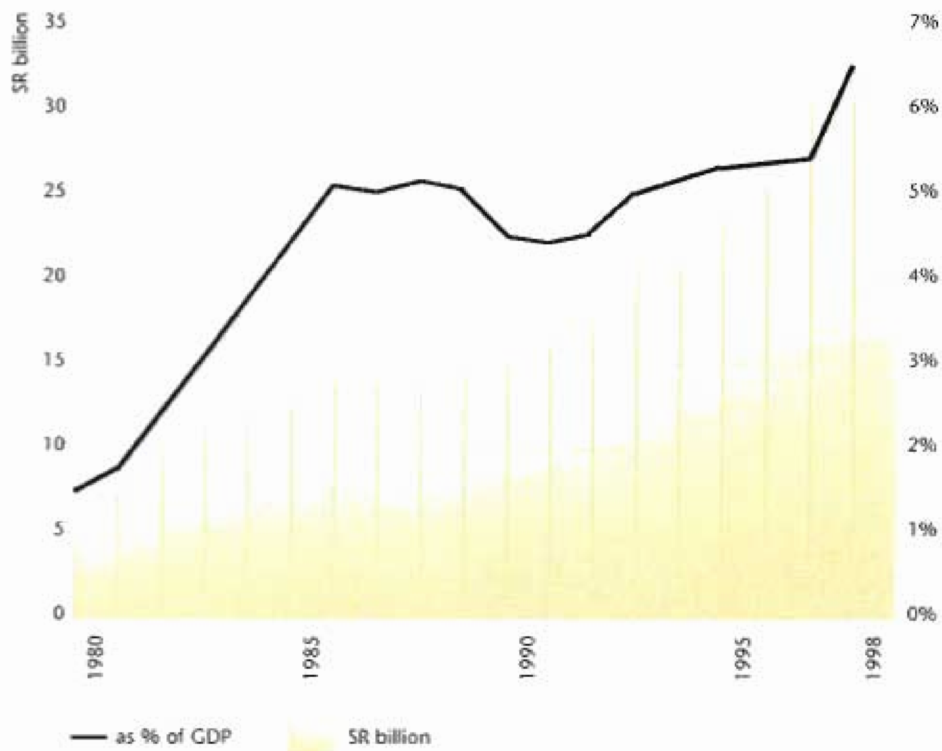


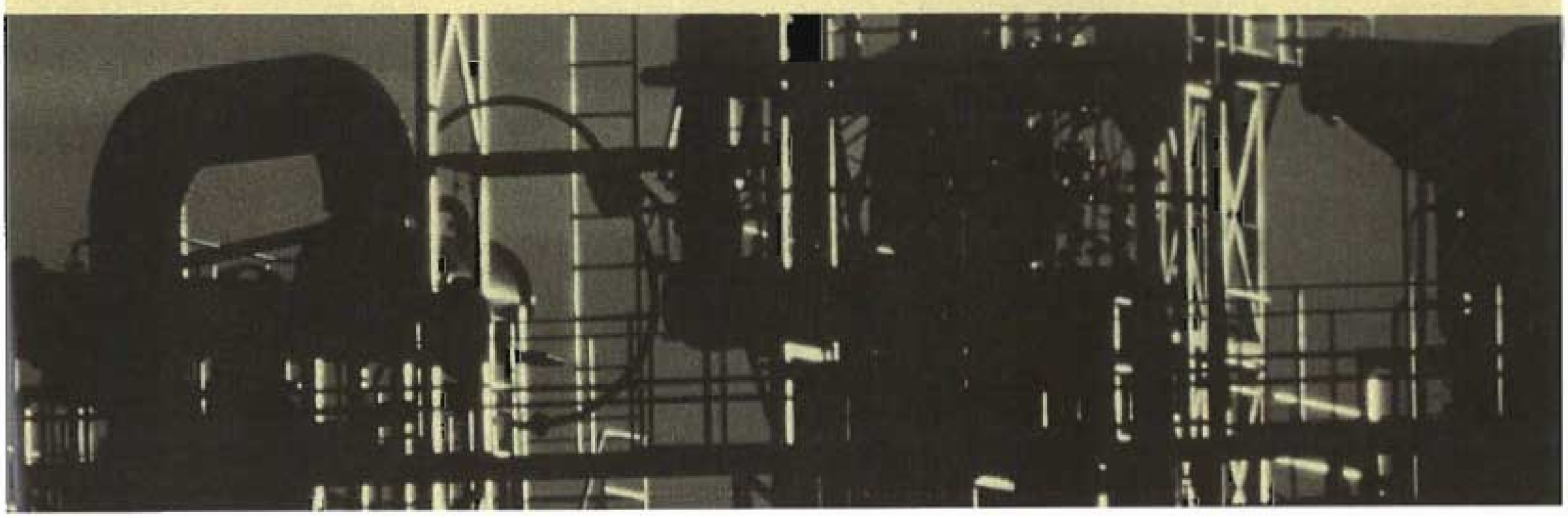
Chart 1: Non-Oil Industrial GDP as % of total GDP, 1980-1998



global trade are likely to be minimal, at least initially. On the export side, the reforms would be neutral to exports of oil and oil-related products since these are not covered by the World Trade Organisation (WTO). In addition, the benefits accruing to petrochemical exports would be minimal if the existing high tariffs imposed by industrialised countries are not lifted. On the import side, it is believed that the expected gradual reduction in food subsidies in European countries will raise the cost of food imports. The impact on the Kingdom's food imports would be relatively limited, however, as the country is increasingly becoming self sufficient in basic foodstuffs and is relying, to a large extent, on food imports from the region. With the import tariffs to be reduced gradually as Saudi Arabia joins the WTO, the long-term benefits to the Saudi economy will depend on how successful is the diversification of the economy's production structure.

Pressured by declining oil revenues, the Government has moved toward privatising some utility companies to reduce its fiscal burden and improve efficiency in resource allocation. In the hope of enabling the private sector to grow at a faster rate, privatisation has been the focus of the Government's official policy since 1985. The first step in the Government privatisation programme was supposed to involve the sale of the Government's share in companies whose stocks are already publicly traded. The second step should involve the transformation of certain public institutions that can run on a commercial basis, such as telecommunications, electricity and airlines, to joint stock companies and subsequently offering them to the general public. Although the push towards privatisation slowed in the 1990's, the Government has recently introduced a programme to privatise the telecommunication sector, and towards the end of 1998 has announced the merger of the ten electricity companies and adjusted electricity tariffs upwards to prop up their profitability.

The transformation of public companies to private entities will allow the Government to focus its attention and resources on providing the physical and social infrastructure, particularly in the development of human resources. It will also enable the Government to utilise accrued funds from privatisation in carrying such tasks more forcefully, which will strengthen the role of the private sector and prepare it for global



competition. Moreover, a gradual but steady transformation may work to remove the fears of unemployment among the labour force. The emergence of a relatively active stock market and its increasing popularity may smooth the transition toward liberalisation and integration with the world economy, as additional steps still need to be taken regarding opening the Saudi stock market for foreign investment. Allowing in foreign portfolio investors will deepen the market, lead to greater competition and improve the balance of payments.

Saudi Arabia has had a long tradition of private sector dominance in a wide range of activities from agriculture, trade, and construction to small-scale manufacturing and services. However, Government ownership in the productive assets increased substantially in the 1970s. Backed by large financial resources afforded by the oil boom, Government ownership expanded to cover basic economic activities, such as upstream oil production and refining, the petrochemical industry, airlines and railroad transportation, and utilities. Government ownership in the Saudi stock market stood at 33% of the market's capitalisation of SR160 billion at the end of 1998, suggesting huge potential for attracting private capital should the Government decide to offload part of its ownership in these companies. With $400 billion in liquid assets (SR1.5 trillion) estimated to be held abroad by Saudi individuals and corporations, there is no shortage in financing such privatisation projects or, for that matter, other potential investments in new industries, infrastructure, commercial and social services projects. However, external financing of such projects should proceed, once progress in structural reforms is underway.

Privatisation efforts will lead to their desired successes only through the functioning of an efficient capital market where publicly transformed companies can raise capital from non-traditional sources. In addition to opening the market to foreign investors, the process of financial legal reform may need to be accelerated. The creation of an efficient and investor-friendly capital market hinges on the availability and reliability of information regarding public enterprises and the rate at which information is disseminated to all market participants. Currently, issues of transparency remain an obstacle confronting local investors as some financial

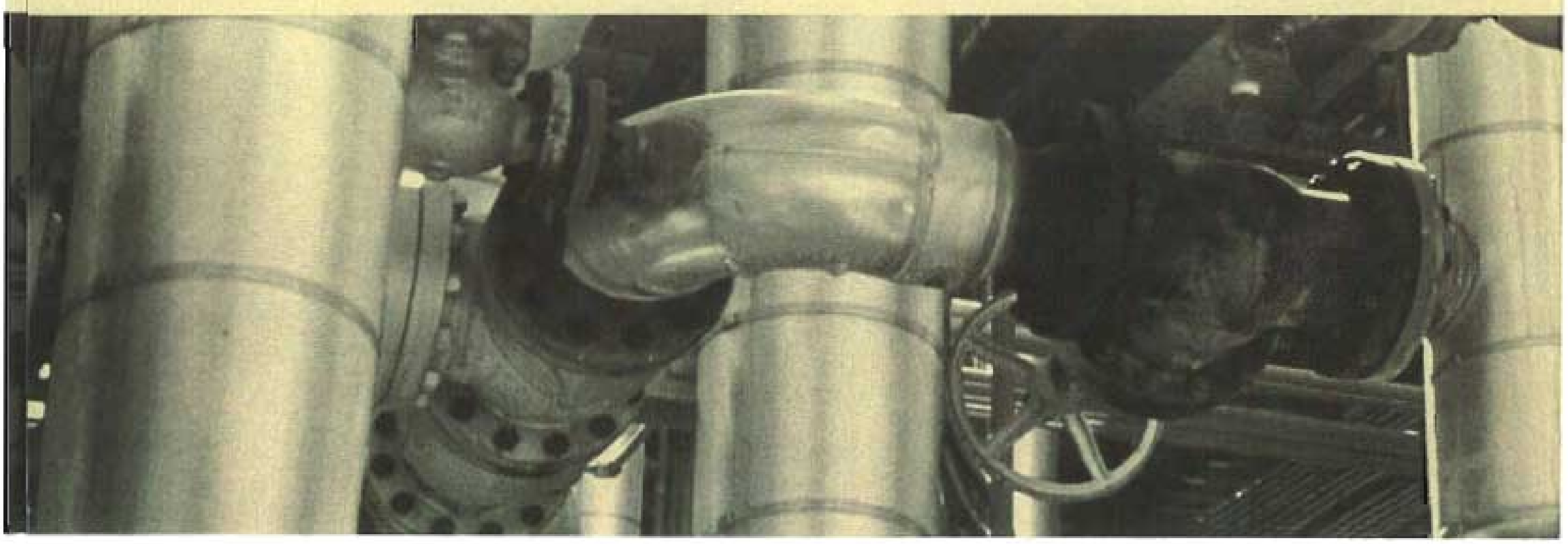
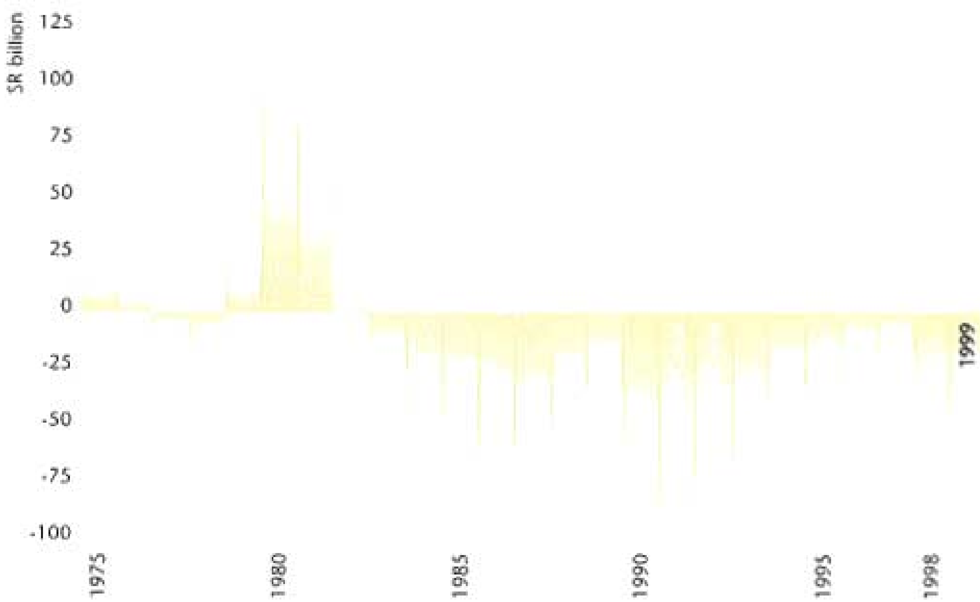


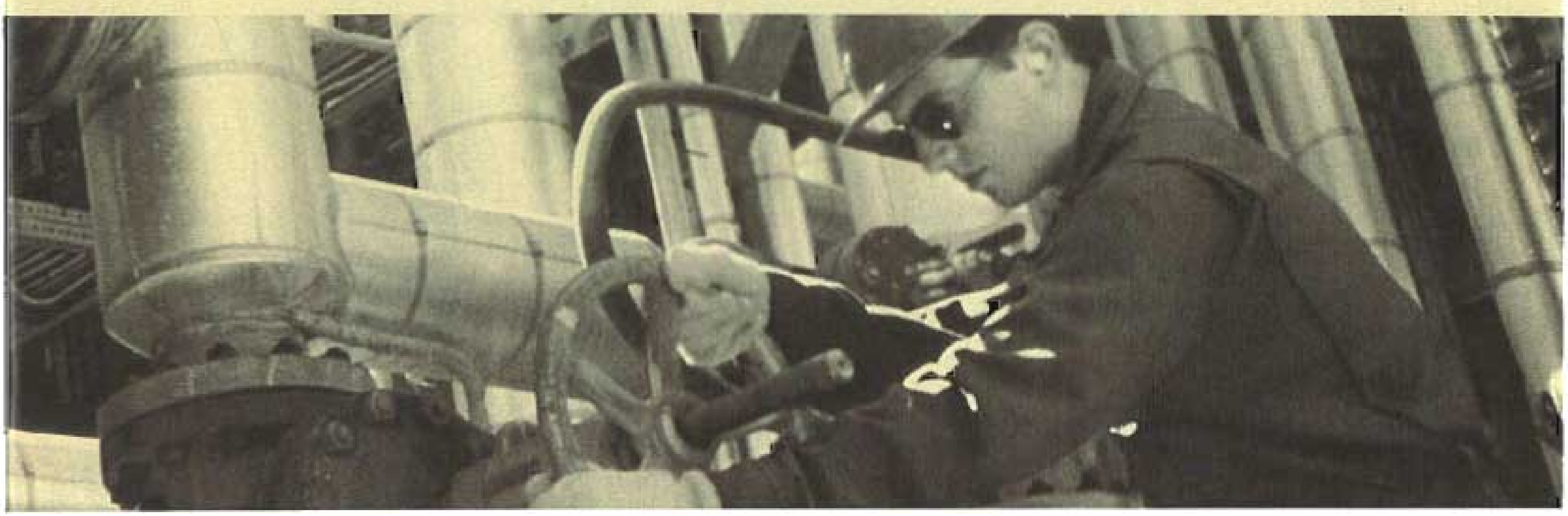
Chart 2: Saudi Arabian Government deficits and surpluses, 1975-1999



statements either do not conform to internationally acceptable standards or are made available only with a considerable time lag.

The private sector is wasting no time in preparation for the country's accession to the World Trade Organisation and the subsequent entrance of foreign competition to the local market. In line with the global trend, firms in the region are employing a growth strategy through mergers. During the past two years, four such events occurred involving four banks and two industrial and services companies. With most mergers occurring among banks, it seems this sector is eyeing foreign competition more cautiously, taking the necessary steps to strengthen its balance sheet and income generating capacity while cutting costs and expenses.

If it was not due to the collapse of oil prices, the path towards a balanced budget by the year 2000, as set in the current 5-year development plan, would have been attained. While such goals may becomes difficult to realise, it is certainly expected to accelerate the implementation of fiscal reforms and to stimulate effective actions on privatisation and deregulation. If oil prices remain subdued throughout this year, greater challenges will be put on the Government to meet the growing demand of social and physical infrastructure expenditures. The Government's recent privatisation effort in the telecommunication and electricity sectors may help reduce budgetary expenditures this year, however, it is not expected to leave a significant impact on this year's projected deficit. The major economic slowdown last year has highlighted, in addition to the structural imbalances of the fiscal and current accounts, the need to pursue economic reforms more aggressively. The Government was highly commended as it rightly exercised a greater fiscal discipline last year. A comprehensive strategy aimed at reducing current expenditures and raising non-oil revenues, once taken more expeditiously, would enrich competition, lure more foreign investments, and effectively enhance the repatriation of vast Saudi capital from abroad.



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